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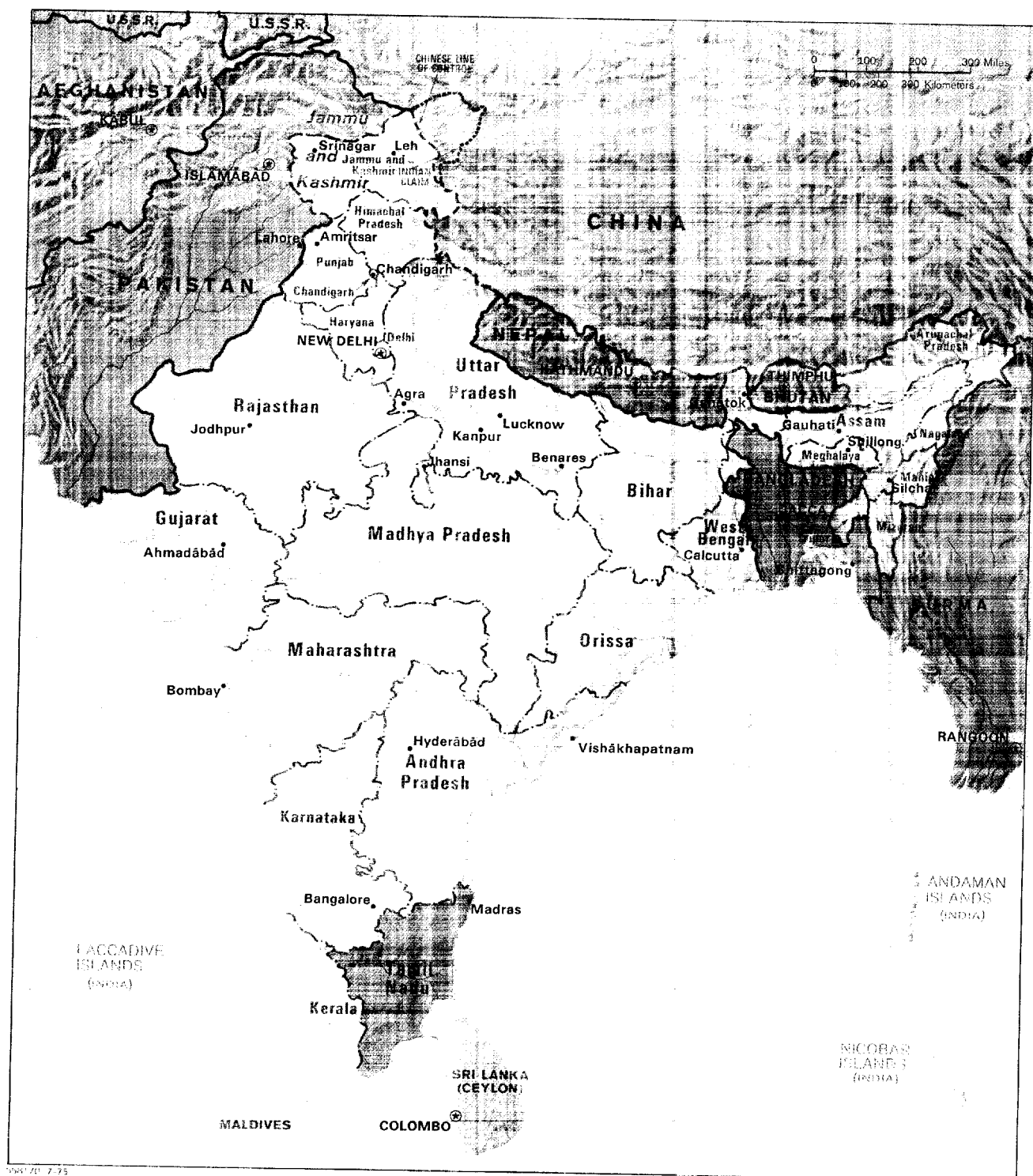
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INDIA

New Delhi may well dismiss the non-Congress Party government of autonomy-minded Tamil Nadu State if it continues to hesitate in supporting Prime Minister Gandhi's authoritarian moves.

The imposition of a state of emergency on June 26 was not received well by Tamil Nadu's ruling Dravidian Progressive Federation, which has governed the southernmost state since 1967. The party advocates states' rights and has long opposed the concentration of power in New Delhi. Ethnic, cultural, and linguistic considerations are behind the Tamils' deep resentment of the northerners, who dominate the central government.

Since the emergency proclamation, the government in Tamil Nadu has made little effort to enforce the new regulations. It has arrested only a handful of dissenters, and press censorship is light. At a mass meeting of over 150,000 in the capital city of Madras on Sunday, Chief Minister Karunanidhi refuted Mrs. Gandhi's claim that internal and external forces were imperiling India's political system and had necessitated her repressive acts. He added, however, that his government would obey New Delhi's orders as long as "they do not go against our conscience."

So far, Tamil leaders have tried to distinguish between party and government actions. The Madras meeting was heralded as strictly a party function. According to one party leader, the state government does not want a showdown with New Delhi because this would give Mrs. Gandhi a ready excuse to dismiss the government and impose central rule. On the other hand, dismissal would give the party a freer hand to attack her and the emergency measures.

If the Prime Minister opts to dismiss the government in Madras, she would provoke a confrontation with potentially dangerous repercussions for the nation. While she could impose her will on the state, if necessary with the help of police and paramilitary units—even the armed forces if needed—such action would inevitably bring to the surface the latent separatism that has long existed in this key south Indian state.

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USSR-TURKEY

The USSR and Turkey will sign a major economic agreement today in Ankara. If fully implemented, the agreement would more than double the already substantial Soviet aid to Turkish industry. At least six industrial projects worth an estimated \$600 to \$700 million reportedly are included in the agreement. The Soviet credit will be used to expand the Iskenderum steel complex and the aluminum plant at Sevdisehir, both of which were built with Soviet aid. The USSR will also build four thermal power plants at undisclosed locations. Turkey will repay the aid in goods, primarily agricultural products, over ten years at an average 3-percent interest.

Total economic aid to Turkey prior to this new accord was \$520 million, of which \$421 million was earmarked for the steel complex. Given past Soviet experience, implementation of the agreements will be slow. Nevertheless, the Soviets will welcome this opportunity to demonstrate their support at a time when Turkey is having problems with the US. Ankara, for its part, will probably use the occasion to point up the contrast between increasing aid from the Soviet Union and the cutoff of US military assistance.

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ARGENTINA

Organized labor won its massive wage demands yesterday and ended its general strike. Although press reporting indicates the settlement includes the removal of Jose Lopez Rega as welfare minister, he apparently remains President Peron's private secretary and chief adviser.

The government, whose decision to annul the wage contracts had precipitated the general strike, has indicated it will revalidate the contracts negotiated last month calling for wage increases of up to 130 percent. The press also reports that the economy and labor ministers will be replaced.

The settlement is a mixed blessing for top labor leaders. On the one hand, the workers have secured wage hikes in line with the increased cost of living. On the other hand, however, the union chiefs did not succeed completely in their bid to dislodge Lopez Rega from power. Indeed, some of them had come to regard his ouster as even more important than the wage negotiations themselves.

The labor leaders have for some time been at odds with Lopez Rega, who seeks to undermine their influence and enhance his own. They were backed in their recent defiance of Lopez Rega by the military and leading politicians. Unless Mrs. Peron is now prepared to rein in her controversial confidant, he will continue to influence government policies.

In a related move, the senate yesterday went against the wishes of Mrs. Peron and filled the vacant position of senate president. According to the constitution, this officer is next in the line of succession. Mrs. Peron had sought to keep the post unfilled to complicate the process of replacing her as president and thus reduce the chances of a move against her.

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PORTUGAL

Speculation is widespread in Lisbon that a move is under way to remove Prime Minister Vasco Goncalves.

According to press reports, General Otelo de Carvalho, the influential security chief and a leader of a leftist faction in the Revolutionary Council, has joined with Council moderates to oppose the Prime Minister. An effort may be made to oust Goncalves at the current session of the Armed Forces General Assembly, perhaps by trying to pin the blame for Portugal's worsening economic situation on the Prime Minister and his communist-leaning advisers in the cabinet.

The speculation has been fueled by recent statements from the Portuguese Communist Party, which has so far solidly backed Goncalves. The party yesterday accused the Socialist and the Popular Democratic parties of tacitly supporting a plan to oust the Communists and their allies from the government. The party statement denounced "rampant anti-communism," along with the personal attacks on Goncalves. Last week, the party warned of a possible counter-revolutionary coup attempt aimed specifically at the Prime Minister and placed its adherents on alert.

On a recent visit to London, Foreign Minister Antunes, a moderate, told his political counterpart that the Armed Forces Movement had grown increasingly skeptical of the Communist Party and had decided to resist its efforts to gain political supremacy in Portugal. Other hints that Goncalves is out of favor with his colleagues have been seen in the absence of a welcoming committee when he returned to Lisbon from the Cape Verde Islands independence ceremonies and his remaining in seclusion since that time.

If the reports of collusion between moderates and non-communist radicals to squeeze out Goncalves as prime minister are true, Admiral Vitor Crespo, the former military governor of Mozambique, could be an attractive candidate to succeed to the job. Crespo has been identified as a member of the moderate faction, but he has been abroad during most of the factional squabbling that has plagued the Revolutionary Council.

The US embassy in Lisbon reports that an alternative to sacking Goncalves that has been mentioned would be to reduce his influence and authority by appointing two deputy prime ministers to "support" him in directing the government.

Goncalves and his Communist supporters may be able to fend off a move against him. The Communists are strong in the labor unions and the media, and have proved their ability to sustain their cause in the streets. [REDACTED]

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USSR-LIBYA

Moscow's defense attache in Cairo has sought to allay Western apprehensions regarding the large Soviet-Libyan arms deal concluded as a result of Premier Kosygin's visit to Tripoli in May. Rear Admiral Ivliev told US military attaches that the Soviets have no illusions regarding Libyan President Qadhafi and are certain he has no intention of moving suddenly into the communist camp. Ivliev noted that Qadhafi desires to deal on a state-to-state basis in a manner which will enhance his stature and prestige.

The attache sought to describe the Soviets' willingness to furnish a wide range of modern weaponry in pragmatic terms. Ivliev observed that, as a "cash on the barrelhead" proposition, Moscow is willing to sell as long as Tripoli can pay for its purchases, without regard for Tripoli's ability to use the equipment. Ivliev's presentation avoided the discussion of political factors which contributed to Moscow's decision to seek closer ties with Tripoli.

Concerning recent reports that the Soviets will receive the use of Libyan air and port facilities as a part of the agreement, the attache claimed that his country has no intention of establishing bases in Libya. This remark comes at a time when Soviet representatives in Cairo have recently shown concern over the possibility that the US navy may gain base rights at Egyptian naval facilities at Alexandria. Ivliev's comments, which were apparently intended to reach the US government, may have been designed in part to dampen any US concern that a naval presence in Egypt would be necessary to counter Soviet bases in Libya. Access to military facilities in Libya would provide Moscow with added flexibility to support its Mediterranean Fleet should current strains with Egypt make such an alternative necessary.

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YUGOSLAVIA

The Yugoslav military is accelerating its efforts to procure modern weapons in the West and thus reduce its dependency on Soviet weaponry.

During a recent meeting with the US ambassador, Yugoslav Defense Minister Ljubicic took pains to stress that the delivery of modern Soviet arms to Yugoslavia earlier this year has not allayed Belgrade's wariness of Moscow or lessened its desire to expand military cooperation with Western countries.

Ljubicic was also eager to spike speculation that the new arms shipments from the USSR signified a closer military link with the Soviets. Although he admitted that there are a "few" Soviet technicians in Yugoslavia to help assemble the new equipment, he insisted that no close Soviet contact with operational units is permitted. Ljubicic rejected suggestions that the 1974 naval repair law was tailored to give the Soviets a naval "presence" in the Adriatic and reiterated his standing invitation for US naval vessels to take advantage of the repair facilities.

Ljubicic sought to counter US fears that classified material might find its way into Soviet hands. He declared that the Yugoslavs are "fully capable of protecting the means of their independence," and maintained that the civilian, not the military, sector was responsible for any diversions of restricted technology to the East in recent years.

Despite his interest in Western arms, Ljubicic is concerned over their high cost. Belgrade's plans to install a French-made surface-to-surface naval missile on a new patrol boat were recently scrapped because the French system was too expensive. The Soviets reportedly are going to furnish a less-desirable—but cheaper—missile.

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JAPAN - NATIONALIST CHINA

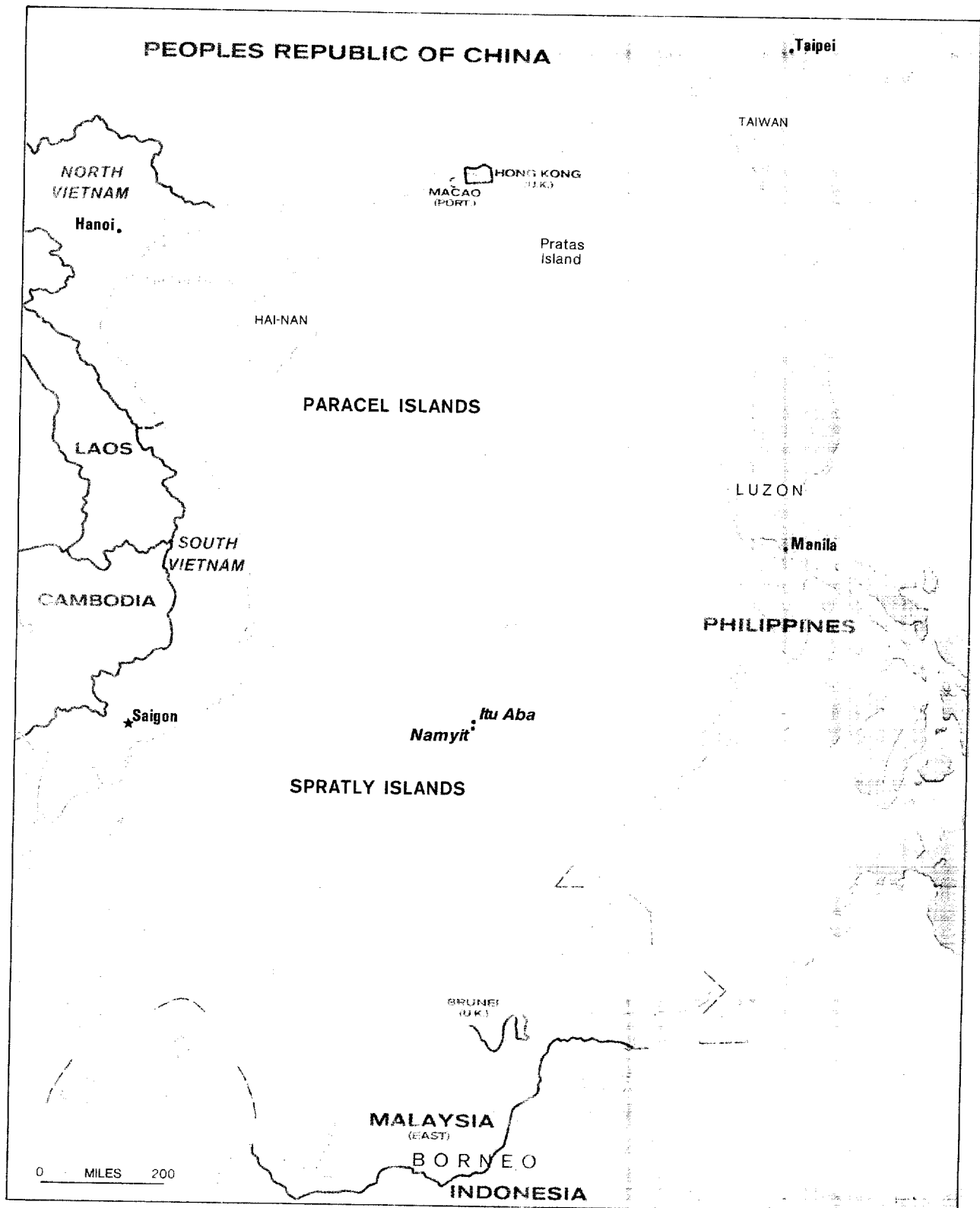
Tokyo and Taipei today agreed to restore the air link broken last year when Tokyo signed a civil air agreement with Peking. Some technical problems still remain, and air operations may not resume for a few months.

The Japanese have been working hard to resume flights ever since the Chinese Nationalists severed the air link in a fit of pique over an alleged Japanese degradation of their flag. After intensive private talks with the Japanese, Nationalist officials recently agreed that a statement in the Diet last month by Foreign Minister Miyazawa had conveyed appropriate Japanese respect for the Nationalist flag. In fact, Miyazawa's statement differs little, if at all, from previous Japanese pronouncements. Taipei apparently feels, however, that a decent interval has passed since the initial dispute; it is also undoubtedly mindful of the large profits involved in flying to and from Japan.

Peking may consider an agreement with Taipei at this time to be another indication that the Miki administration is somewhat less interested in close relations with the mainland than was the Tanaka administration. Relations between the two countries, however, are unlikely to be affected in any fundamental way.

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SPRATLY ISLANDS

Both the Republic of China and Vietnamese communists have demonstrated their sensitivity to challenges to their claims in the Spratly Islands and their willingness to use force to protect them. Other claimants include the People's Republic of China and the Philippines.

Two incidents have been reported since Vietnamese communist forces took control of islands previously held by the Government of South Vietnam. In late May, the 200-man Taiwanese garrison on Itu Aba fired warning shots at a suspected Vietnamese cargo ship, driving it beyond the island's three-mile territorial sea limit. On July 2, a Nationalist Chinese fishing craft was hit by fire from the communist garrisons on Namyt, killing one crew member. So far, Taipei has declined to make an issue of the incident.

No encounters have occurred involving the 200-man Philippine marine company stationed in the Spratlys. Tensions could increase, however, [redacted]

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Prospects for further acts of violence remain high considering the numerous boats that fish the Spratly waters. [redacted]

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FOR THE RECORD

SYRIA: Syria has expressed interest in purchasing up to 15 helicopters from the West, reportedly to be used in a nonmilitary transport role. The Boeing Chinook, a twin-engine medium transport, and the French Super Frelon, a three-engine multipurpose helicopter, are being considered. The purchase of these helicopters could signify an attempt by President Asad to improve relations with the West or simply to fill the need for specific equipment. In either case, it does not significantly reduce Syria's dependency on the Soviet Union—presently the single source of military aircraft.

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